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## Industrial Investment in Urban Poverty Areas

SPEECH  
OF

**HON. ROBERT F. KENNEDY**

OF NEW YORK

IN THE SENATE OF THE UNITED STATES

Wednesday, July 12, 1967

Mr. KENNEDY of New York. Mr. President, I rise for the purpose of introducing, with the junior Senator from Kansas [Mr. PEARSON], a bill for private investment in urban poverty areas. The aim of this bill is to create a new partnership against poverty; to bring the resources and talent of American private enterprise to bear on the most serious domestic challenge before us: the concentrated deprivation, frustration, and decay which tear at the very fabric of life in every major city in the Nation.

The specific purpose of the bill is to stimulate investment—the creation of new jobs and income—in poverty areas. The entire program is to be carried out, not by Government agencies, but by private enterprise. The Federal Government provides only a system of tax incentives, carefully designed to enable private enterprise to make its investments and carry out its operations in the urban poverty areas.

Thus the bill seeks to remedy the greatest failure in our existing poverty efforts: the failure to involve and rely on the private enterprise system which is the basic strength of the Nation. By failing to involve the private sector, we have not only ignored the potential contribution of millions of talented and energetic Americans in tens of thousands of productive enterprises. More dangerously, we have created for the poor a separate economy, almost a separate nation: a second-rate system of welfare handouts, a screen of Government agencies keeping the poor apart from the rest of us. That system—ineffective, inefficient, and degrading—must be changed. This bill would work toward the needed change.

In brief summary, the program will work as follows: An enterprise wishing to avail itself of the bill's provisions will select a site in a poverty area, in cooperation with the city and Federal Government, and the local community affected. The company will agree to create at least 50 new jobs; to fill at least two-thirds of all jobs at this loca-

tion with residents of the poverty area—or other unemployed persons—and to maintain its investment for at least 10 years. In return, it will receive tax credits against its investment in plant and machinery; accelerated depreciation schedules for that investment; extra deductions for wages paid to previously unemployed persons; liberal carryforward and carryback allowances; and assistance in training the new workers.

After extensive consultation with representatives of business, labor, government, the academic community, and the urban poor themselves, our expectation is that these incentives will give our private enterprise system—the most ingenious and productive the world has ever known—the help it needs to effectively attack the difficult and resistant problems of urban unemployment.

Because it operates through the existing private enterprise system, the bill does not require the creation of new Government departments or agencies. It creates no new systems of welfare handouts. It requires no great new outflows of Government spending. Rather, by generating new investment and creating new jobs, it will increase productivity in the Nation as a whole—putting idle hands to work, turning welfare recipients into taxpayers, and decreasing present financial burdens on State and local governments. And greater productivity will result, in our judgment, in increased overall Federal revenues, even after allowing for the tax relief afforded to businesses which make the desired investment.

### I. THE NEED FOR JOBS

This Nation faces many problems. Some are outside our borders, in Vietnam, in the Middle East, in Latin America, and Africa. Some are almost beyond our comprehension: the awful potential of the nuclear weapon, the technical complexities of air and water pollution, the meaning of learning in an age of computers. But of all our problems, none is more immediate—none is more pressing—none is more omnipresent—than the crisis of unemployment in every major city in the Nation.

Trenton, N.J., and Tacoma, Wash.; Lansing, Mich., and Louisville, Ky.; New Haven, Conn., and New Orleans, La.; Mobile, Ala., and Milwaukee, Wis.; East Harlem and East St. Louis, south Los

Angeles and north Philadelphia—in all these, and in dozens more, are spreading pockets of poverty and frustration, anger, and despair. These cities are the vital nerve centers of our economy and national life, the capitals of every section and region of the country. Yet every one, at its core, has dangerous symptoms of decay. The poverty pockets may be virtually cities in themselves, areas of as much as 350,000 people. And throughout these areas: welfare and dependency are becoming pervasive, with the bill just for aid to dependent children rising to over \$500 million yearly in our five largest cities, \$20 million a month in New York City alone. Over 40 percent of housing is substandard, unhealthy, and dilapidated. Education is failing their children, with high school dropout rates which often reach nearly 70 percent. Health is poor and care is inadequate. From one-third to one-half of the families live in poverty. These things we know; and we know of all the consequences: of the broken families and stunted lives, of the crime and violence, most tragically of the children dulled by despair—without prospects, without hope, without the full birthright of American citizenship.

But the measure of the most serious problem of urban poverty—the crisis of unemployment—is that we do not even know how bad it is.

We do know that unemployment in the poverty districts is at least three times the national rate. Negroes in Hough, Mexican Americans in east Los Angeles, Appalachian whites in Chicago, Puerto Ricans in East Harlem, Indians on reservations—in every section, among Americans of every race and background, are groups of people who have lived through the forties and fifties, even through the booming sixties, with an unemployment rate worse than the rest of the Nation knew even in the great depression of the thirties. Yet even this does not measure the full extent of the problem.

Let us look for a moment at what basic government statistics tell us about this poverty. Let us look at a typical ghetto in one of our larger cities. It will be a hypothetical area, representing the average slum surveyed this winter by the Department of Labor in its special study of unemployment in the ghetto; but let us bear in mind that conditions



among Puerto Ricans and Mexican-Americans are even worse than those in those in this "typical" area. This area, let us assume, contains 230,000 people—larger than Hough or North St. Louis, much smaller than Harlem or Watts or Bedford-Stuyvesant or Southside Chicago. Of this number, according to Census estimates, 56,000 will be adult men, aged 20-64; but neither the Census Bureau nor the Labor Department can find from one-fifth to one-third of these men because they have no fixed address, no job; they drift about the city, separated from their families, as if they were of no greater concern to their fellow citizens than so many sparrows or spent matches. Indeed, a recent study indicates that the last census may have "lost" a full 10 percent of all Negroes. Some are "found" in later life, when they may settle down. Some reappear in our statistics only at death. Others remind us of their presence when we read of rising crime rates. Some, undoubtedly, participate in the riots which flash over our television screens and newspaper front pages. We are all aware of them then.

A total, then, of 56,000 adult men—of whom from 11,000 to 19,000 are in the lost battalions; an average of 15,000 missing and idle men. Of the average 41,000 whom the Labor Department can find, over 11 percent are not in the labor force; they do not work, they have stopped looking for work; there is no work for them. Thus another 4,500 of the men in this area are out of the labor force—which then numbers 36,500. Of these 36,500, 10 percent—3,600—are officially counted by the Labor Department as unemployed. For every person so unemployed now, of course, two more will be out of work during the year; but we will count only the 3,600 unemployed now—which means that 32,900 adult men are at work. Of these, says the Department, 2,300 are only working part-time, though they want and need full-time work; thus 30,600 work full-time. Of these, again according to the special Labor Department survey, at least 6,100 make less than \$60 a week—below the poverty line, of course, but also below what a family with four children receives on welfare in many cities.

Thus of the 56,000 adult men in this typical area—by official government statistics—only 24,500, just 43.7 percent, have full-time employment which pays more than \$60 a week. Only 30,600, barely a majority, have full-time work at any rate of pay. Less than three out of five have any work at all. This judgment has been confirmed by every board and commission, expert and amateur, official and layman, which has examined the problem. The McCone Commission looked at Los Angeles—and said that the most serious problem in Watts is unemployment. The Wall Street Journal looked at Oakland and said that the core of Oakland's plight is unemployment. Kenneth Clark's pioneering Haryou study looked at Harlem—and said that Harlem's key problem is unemployment.

This should not be strange to us.

In an age of increasing complaints about the welfare state, it is well to remember that less than 25 percent of

those living in poverty receive public assistance. We earn our livings, support our families, purchase the comforts and ease of life with work. To be without it is to be less than a man—less than a citizen—hardly, in a real sense, to be a father or brother or son, to have any identity at all. To be without function, without use to our fellow citizens, is to be in truth the "invisible man" of whom Ralph Ellison wrote so eloquently—the man who John Adams said a century and a half ago, suffers the greatest possible humiliation—"he is simply not seen."

The crisis in unemployment, therefore, is significant far beyond its economic effects—devastating as those are. For it is both measure and cause of the extent to which the poor man lives apart—the extent to which he is alienated from the general community. More than segregation in housing and schools, more than differences in attitudes or life style, it is unemployment which marks the urban poor off and apart from the rest of America. Unemployment is having nothing to do—which means having nothing to do with the rest of us.

Indeed, the effects go deeper—into the very heart of life, into the structure of the family and the souls of men. As Richard Cloward has said:

Men for whom there are no jobs will nevertheless mate like other men, but they are not so likely to marry. Our society has preferred to deal with the resulting female-headed families not by putting the men to work but by placing the unwed mothers and children on public welfare—substituting check-writing machines for male wage-earners. By this means we have robbed men of manhood, women of husbands, and children of fathers. To create a stable monogamous family, we need to provide men with the opportunity to be men, and that involves enabling them to perform occupationally.

But this is what we have not done. This simple task—affording men the opportunity to contribute to themselves, to support their families, to contribute to their community—this is the task we have failed to accomplish. Most of all we have failed for the young men of the poverty ghetto, who struggle with unemployment rates of forty and fifty percent and more. In the city of Buffalo last month, there were serious riots—as there had been before in 21 cities in a dozen States. And what was the revolutionary cause, what were the incendiary slogans these young men shouted? They did not ask for welfare. They did not want gifts. They were not concerned with the mayor, or the police, or the schools. "Jobs," they said. "Give us work." They asked only for the chance to contribute to this Nation, to do their part as others do. That is the least chance we can afford to our fellow Americans.

## II. THE NEED FOR PRIVATE ENTERPRISE PARTICIPATION

In the last 7 years, we have tried to solve this terrible problem. Almost every Congress has enacted another bill designed to put people to work: the Area Redevelopment Act, the Manpower Development and Training Act, the Investment Credit Act, the Economic Develop-

ment Act, and the landmark Elementary and Secondary Education Act, to provide the educational base which is often so sadly neglected. But as President Johnson reminded us in his great Howard University address of 1966, the test is results: whether we in fact achieve true equality of opportunity for all our people. And by that test, our past measures, necessary and effective as they have often been, have not been adequate to the urban crisis. For the fact is that despite all our efforts, despite the uninterrupted rise in prosperity experienced by the rest of the Nation these past 7 years, the 1967 manpower report states flatly that:

Economic and social conditions are getting worse, not better, in slum areas.

Between April 1960 and November 1966, the proportion of adult men in the work force in these areas dropped from 74 to 65 percent. From 1960 to 1965, while family income nationwide was increasing by 14 percent, family income in Watts—and probably in other comparable areas—dropped by 8 percent. From June of 1965 to June of 1966, according to the Department of Labor, 950,000 new jobs were created for young men. But only 33,000, about 3.7 percent, went to the youth of the poverty ghetto.

Many analysts have tried to explain why our present efforts have failed to provide adequate employment for the poverty areas. The Subcommittee on Executive Reorganization heard dozens of witnesses with varying answers; and certainly all agreed that there is no single cause—that improved programs for education, for political organization, for training, for housing, all must play their part.

But if there is one single shortcoming, one thing we have done hardly at all, it is to enlist the energies and resources and talents of private enterprise in this most urgent national effort. Our training programs, our educational programs, our poverty programs, our housing programs—all these have been Government financed, and most have been Government run. They have been designed in Washington. Their funds have been voted by appropriation. Their implementation has been through Government agencies existing or newly created. I have supported these efforts, and called for their expansion. I have believed, and continue to believe, that while improvement in their organization and function is needed, they are often worth while and necessary, and deserve far greater support than they now receive. But their strongest advocate must admit that they are not enough.

To rely exclusively, even primarily, on Government efforts is not only to ignore the shaping traditions of American life and politics. To ignore the potential contribution of private enterprise is to fight the war on poverty with a single platoon, while great armies are left to stand aside. For private enterprise is not just another part of America; in a significant sense, private enterprise is the very sinew and strength of America. Our productive assets, our machines and money and plants are owned by private enterprise. The entire intricate chain of the economy—the means by which we join with our fellows to produce goods and



roads, to bring food to our tables and clothes to our backs—all this is organized by private enterprise. Private enterprise has built our cities, and industries; it has created jobs for over 60 million Americans now at work. But it has not rebuilt the centers of poverty, nor put their people to work. And in my judgment, the lack of private enterprise participation is the principal cause for our failure to solve the problem of employment in urban poverty areas.

It is not for want of a sense of responsibility, nor out of willful ignorance, that private enterprise has not played its full role. The Subcommittee on Executive Reorganization heard from many businessmen aware of the challenge and eager to meet it. Corporations such as Smith Kline & French in Philadelphia, U.S. Gypsum in New York, and U.S. Plywood in Cleveland, have begun their own experiments in the Nation's war on poverty. The National Association of Manufacturers is carrying out an interesting and seemingly successful job-training program. It has been my own privilege over the last year to work with a group of unusually concerned and energetic businessmen, together with the local community, in a major effort to develop the Bedford-Stuyvesant area of Brooklyn. I know at first hand the ability and spirit of these men, and of their wish to engage the resources of their corporations for the benefit of the other Americans.

And in recent months, I have talked with other businessmen and academicians, labor leaders, and city planners. Almost unanimously, they have agreed on two related propositions. First, private enterprise must invest its resources in poverty areas. Second, it must receive assistance from Government to do so. As David Rockefeller told us in his testimony before the Executive Reorganization Subcommittee, Government must encourage investment in poverty areas just as it tries to encourage it in developing countries. And Prof. Herbert Gans summed up the necessary steps we must take when he testified that—

Since incorporating the poor into the affluent society is a new venture, the Federal government must take the initiative and provide that mixture of risk-reducing incentives . . . needed to get the incorporation of the poor underway.

Private corporations, after all, are responsible to their stockholders. Large-scale investment in poverty areas will certainly be more costly and difficult than investment elsewhere; that, after all, is why investment has not taken place in these areas in the past. Land, transportation, insurance against fire and vandalism, training of workers, extra supervision—all these are so costly in poverty areas as to make investment there, under present conditions, uneconomical. If private enterprise is to play its full part in poverty areas, therefore, it must have the support of Government to help make up for the increased costs.

### III. PRIVATE ENTERPRISE PARTICIPATION: THE MECHANICS

In what way should private enterprise now be encouraged to join the fight against unemployment? For us, the answer is simple and direct: it should cre-

ate new jobs, and hire and train unemployed and poor people to fill them. The actual creation of new jobs is the single greatest lack in present programs. And the lack of job opportunities handicaps all other efforts. Education programs are hurt when students see their fathers and older brothers idle; if no jobs are waiting, they ask, why bother with education? The same lack of jobs has caused high dropout rates from job-training programs. Housing programs suffer when unemployment causes overcrowding. The need is for jobs and income, now. And the creation of new jobs, new productive enterprise, is the task that private business can and must undertake.

The next question is where these jobs should be created. Our answer is that to have a maximum impact on the problems of the urban poor, the new enterprises must be established, the new jobs must be created, in the urban poverty areas. There are four principal reasons for so limiting the choice of sites.

First, we know that at the present time, large numbers of the urban poor cannot be induced to take jobs away from the areas in which they live. Secretary of Labor Willard Wirtz told the Executive Reorganization Subcommittee that "most of the unemployed in the slums" are so "conditioned by a century of insecurity" that even distances of "more than six or eight blocks away from where they live" create a severe problem; and most new job openings are, of course, much more than a few blocks outside poverty areas.

Second, even if we could induce the urban poor to commute to jobs far outside their areas, most cities lack the mass transportation facilities to take them to and from their place of work at a price they can afford to pay. The Department of Labor has found that "present transportation systems are both inadequate and too expensive to bring the slum residents to these jobs." Nor is inexpensive housing available, or likely soon to be available, near the new job openings that do exist.

Third, the location of new industrial facilities in urban poverty areas will have an important "multiplier" effect on the creation of jobs. New auxiliary businesses will be spun off in the same area to service the needs of the primary facility. New retail and service facilities—restaurants and food stores, barbershops, dry cleaners, and clothing stores—will be required to satisfy the demands of the workers at the primary establishment. Depending upon the area, I have received estimates that for every three jobs created in a primary facility, from two to three additional jobs may be created in secondary and service facilities nearby. Each of these derivative jobs and entrepreneurial opportunities will be open to poverty area residents, without further Government action.

Fourth, location of investment and jobs within poverty areas is important for its own sake. Partly, it is important to end these areas' isolation—to bring not just individual residents, but the entire community, back into contact with the mainstream of American life. For

another part, it is important that children and young people see change and development take place through the work of their own fathers and brothers—providing concrete hope through living example. And for another part, it is vital that poverty areas, like other communities, be able to develop a sense of joint community achievement and purpose.

This is not to say that this Nation need not strive for an open society, in which the residents of poverty areas, and in particular residents of the Negro ghetto, who have achieved financial and social security, have complete freedom to choose where they will live and work. That is birthright for all of us; and it must be achieved. But I believe that it is far more important that the vast majority of our urban poor be enabled to achieve basic financial stability and a sense of dignity and security where they live now. That is the indispensable first step toward the full freedom of citizenship.

### IV. INCENTIVES

To encourage the creation of new enterprise, the investment of capital in urban poverty areas, we require an adequate system of incentives. To devise such a system, I have talked with economists, tax experts, city planners, and business leaders alike. Their expert knowledge and the previous experiences of our Government, and the government of the Commonwealth of Puerto Rico in attempting to induce industrial investment in specified geographical areas, lead to the conclusion that the most simple, efficient, and effective vehicle for encouraging such investment is the enactment of a system of tax incentives.

The concept of government incentives to induce desired investments by private industry is neither new nor radical. Rather it is a concept honored by practice since the founding of the Republic. From 1792 until well into the 1830's, the bulk of Federal expenditure was devoted to creating and inducing internal improvements, particularly the roads and canals which opened up new territory for settlement. Throughout the 19th century, Government induced the building of railroads, including the great transcontinental roads, by offering liberal grants of land on either side of the right-of-way; the railroads sold this land to help repay their investment. In this century, similar practices have extended into every corner of our economy. To increase exports, we created an Export-Import Bank, which guarantees and insures foreign sales on credit. To induce the maintenance of a strong merchant marine, we subsidize the building and purchasing of ships. To assist in the task of international development, we guarantee American private investment in foreign nations.

Even more than with such direct inducements we have used the tax laws as a means of persuading private citizens and enterprises to invest in desired ways, at desired times, and in desired locations. To encourage long-term investment, we tax capital gains at half the normal rate. To encourage charitable contributions, we allow them to be deducted from current income. To encourage oil and



mineral production, we offer depletion allowances. To encourage the building of grain-storage facilities and defense plants, we have offered faster-than-normal depreciation rates. To encourage investment in capital goods as opposed to inventory or consumption, we have allowed tax credits for such investment; suspended that credit when we wished to slow investment down; and, just recently reinstated it is order to speed investment up again.

The principle that the tax code may be used to induce certain investment applies to questions of investment location as well as to the fact of investment. This has been recognized by both President Kennedy and President Johnson. Each has supported tax credits, as high as 30 percent, to induce American private enterprise to invest in underdeveloped countries. In the Foreign Investment Credit Act introduced by Congressman Bogg, and in the pending treaties with Thailand and Israel, the concept of tax incentives for qualifying businesses has been stressed as the key to helping less-developed nations reach economic stability.

That such tax incentives can prove effective in attracting investment capital is demonstrated by Puerto Rico's Operation Bootstrap. There, a system of tax exemptions, carefully protected by our own Internal Revenue Code, has helped just since 1948 to set up over 1,100 plants and factories. Manufacturing income has increased by more than 600 percent; per capital income has risen 300 percent; the number of workers engaged in manufacturing has almost tripled. The economy of this little island has grown at an annual rate of over 9 percent—a rate which far surpasses the economic growth of the United States as a whole.

Of course, exceptional tax incentives should not be lightly given. Any exception and departure from a uniform tax base should be required to meet two tests. First, as President Kennedy said in submitting the original investment credit bill, we must ask if the provision will "promote desirable social or economic objectives of overriding importance." Second, if certain preferential tax treatment is to be given to certain members of a class, then we must be sure that these benefits are not creating a special, privileged group, but are only compensating for additional risks and burdens. As Prof. Robert Hellawell, of Columbia Law School, has succinctly noted:

Whether a tax provision violates tax equity depends largely on whether it seems fair. It is fair if it justifiably compensates an individual for taking a lower than normal return, a greater than normal risk, or perhaps a greater than normal expenditure of executive time and energy.

In my judgment, tax incentives for investment in ghetto areas meet both of these criteria. Certainly they will promote a "desirable objective" of "overriding importance"—the employment and self-sufficiency of American citizens, and the improvement of conditions in our most important cities. Moreover, they are fair. They insure nothing more than a reasonable return to those who will face the higher costs and the labor

problems involved in establishing facilities within ghetto areas; they do no more than compensate business for the costs and uncertainties of remedial training, difficult transportation, possible vandalism or fire damage, and extra executive time and effort.

#### V. THE BILL

The bill that the Senator from Kansas and I are now introducing builds upon all of these past experiments. Its objective is to foster a partnership between private industry, the Federal Government, and our major cities in coping with the unemployment which scars and cripples the urban poverty area. To accomplish this objective, the bill provides:

First. The various incentives will apply not to relocating businesses, but only to companies which will construct new facilities, or expand existing ones, in urban poverty areas. In short, it will create new jobs. The qualifying areas are those that are presently shown on maps of standard metropolitan statistical areas of over 250,000 people, prepared for the Office of Economic Opportunity by the Bureau of the Census. These 193 areas in 37 States will be supplemented by permitting the Secretary of Housing and Urban Development, in cooperation with the Secretary of Labor and the Secretary of Commerce, to add specific poverty areas in which industrial facilities are needed in any place classified as urban by the Bureau of Census.

Although this classification will reach the great majority of poor people, and encompass concentrated corners of poverty in all States, it will admittedly not touch every part of America that needs assistance. For it will not help reduce the hunger and despair of America's rural poor—in Appalachia, the Mississippi Delta, or the harsh lands of the Southwest. Many of these areas, of course, are already eligible for assistance under the Economic Development Act. Moreover, incentives to encourage location in urban poverty areas might be largely vitiated if they were to be applied to all areas of the country. And these areas are not presently handicapped by many of the cost factors—such as high-priced land and congested transportation—which afflict urban poverty areas, and which it is the aim of this bill to compensate for.

Still, one exception to the urban limitation is provided in this bill: the reservations on which tens of thousands of American Indians sit in idleness and disease and hunger, their lives even more desperate than those of the urban Negro or Puerto Rican or Mexican American. The problems of American Indians do not perhaps strike us with the same urgency, the same sense of imminent danger, as do the problems of the central city. But so terrible is their condition—so badly have we failed in our responsibility to them—that it would be grossly unfair to encourage investment in any part of America without doing at least as much for investment and job creation on Indian reservations.

Second. Those cities, encompassing urban poverty areas, which decide to participate in the program—and it shall be a matter of individual choice for each

city—shall serve the same function that the Economic Development Administration does in Puerto Rico: to be not merely a passive recipient of Federal programs, but an active participant in them. Thus, under the bill, each city, and not the Federal Government, will determine the speed and intensity of new industrial investment within its poverty areas.

Third. The business which has received approval from the municipality and has agreed to a site for its facility shall accept certain conditions incorporated in a certificate issued by the Secretary of Housing and Urban Development, in cooperation with the Secretary of Labor and the Secretary of Commerce. The corporation shall agree to meet certain building standards, keep records concerning its employees and its expenses, and pay wages comparable to those paid by its competitors in the same locale. Most importantly the business shall agree that at least two-thirds of all of its workers in the certified facility shall be either residents of the poverty area, or low-income unemployed individuals. The bill also provides, as a safeguard against insubstantial or fly-by-night operators, that the facility must employ a minimum total of 50 workers—reduced to 25 in cities of under 50,000 persons and on Indian reservations. But if a lower minimum is found to be an adequate safeguard, I would favor that lower requirement, in order to attract the participation of as wide a segment of American business as possible.

Fourth. The only qualifying businesses shall be those which will hire a significant number of unskilled or semiskilled workers and which do not directly compete with local entrepreneurs. The bill therefore covers manufacturers, producers, and distributors, but does not apply to any retailers. Thus it offers inducements to electronics manufacturers who sell in the general economy—but not to television retailers who might compete with existing stores in the poverty area. It offers assistance to a drug wholesaler serving an entire metropolitan area—but not to a drugstore which competes for the scarce dollars of the local poor. Its provisions also cover construction firms that will locate in urban poverty areas, hire local workers, and engage in construction within those areas.

Fifth. The working force hired by the qualifying employer will be trained under the auspices of the Department of Labor. Such training will differ from the usual present pattern, since it will not involve groups of men being prepared for certain trades, with placement to follow in the uncertain future; rather it will be aimed at giving specific individuals the skills to fill specific positions. The actual training will be done either by local agencies, or by the employer himself, who will receive funds to cover his costs from the Department of Labor. To meet training costs and allowances, a \$20 million appropriation will be needed for next year. In the years thereafter, Congress shall appropriate such amounts as may be necessary.

Sixth. Any qualifying business shall receive the following tax incentives dur-



ing the 10 years immediately following the time that it begins operations:

A 10-percent credit on machinery and equipment, in lieu of the normal maximum 7-percent credit.

A 7-percent credit on expenditures for constructing an industrial facility or for leasing space for a qualifying business.

A credit carryback of 3 taxable years and a carryover of 10 taxable years.

A useful life, for purposes of depreciation, of 66⅔ percent of the normal useful life applicable to real and personal property.

A net operating loss carryover of 10 taxable years.

A special deduction of an additional 25 percent of the salaries paid to all workers hired to meet the requirements of this act.

Three characteristics of these incentives are worthy of particular attention.

First, they are carefully directed at the particular problem of investment in poverty areas. The existing tax credit for machinery is extended to facility construction, to allow for the fact that most enterprises will have to build new facilities, rather than simply expand existing facilities. The carryover and carryback provisions are lengthened to 10 years, to allow for the likelihood that development of profits will take longer than usual. The special deduction for wages and salaries will encourage intensive use of labor, thus putting relatively more men to work, as opposed to machinery, in relation to a given volume of production.

Second, these provisions are drafted so as to introduce a minimum of new complexity into the Internal Revenue Code. All except the special deduction for wages and salaries are directly modeled on existing code sections. They will therefore be simple to understand and use, for businessmen and tax officials alike.

Third, they will be effective. Investment credits and accelerated depreciation, and the other elements of this system, have proven their ability to stimulate new investment both in Europe and in the United States. George Terborgh of the Machinery and Allied Products Institute has estimated that the existing tax credit, together with a 15-percent reduction in useful life for depreciation purposes, afford about a 20-percent increase in the normal rate of return. The extended tax credit in this bill, together with the 33-percent reduction in useful life, would double that increase if available outside poverty areas; in the conditions under which they will actually be available, for investment in poverty areas, these incentives should produce a return at least equivalent to that under the most favorable conditions outside these areas.

Seventh. If the qualified business fails to hold its real or personal property for stipulated periods of 10 and 4 years respectively then all credits allowed for expenditures on this property shall be recovered by the Treasury. If the qualified business' certificate is terminated by the Secretary of Housing and Urban Development, then an amount equal to the credits taken during the last 3 years,

and to all special salary deductions, shall also be recoverable. These particular proposals are not the only possible mechanisms for safeguarding the public interest. If these sanctions are too strict or too lenient, and if others are found to be more consistent with the purposes of this act, I shall be glad to support the relevant changes.

Eighth. No certificate shall be issued without prior consultation, including a public hearing, with the residents of the poverty area affected.

Ninth. No certificates shall be issued by the Secretary of the Treasury after this act has been in existence for 10 years unless the Congress decides to extend the applicability of its provisions.

#### VI. COSTS AND BENEFITS

Any proposal for tax credits and deductions should be carefully considered with respect to its costs. Will there be a revenue loss? Or will costs be more than made up by the benefits?

I believe that this bill will in fact pay for itself; that it will not result in a net revenue loss. Rather, if successful, it will bring substantial benefits to the Treasury, to State and local governments, to the economy in general—and to tens of thousands of individual Americans.

It is of course impossible to estimate with any precision the extent to which businessmen and firms will take advantage of these incentives; that will be the product of thousands of individual business decisions. But what can be clearly demonstrated, I believe, is that to whatever extent the bill is used, the result will be a net benefit to the Treasury, and to the Nation. To make this demonstration, we can analyze a hypothetical case of a single business firm under the bill; but recognizing that these calculations are themselves only rough approximations, we will err on the side of conservatism.

Assume, then, a firm which invests \$1 million in a poverty-area enterprise, split equally between plant and equipment. The tax credit allowed against the plant will be 7 percent, or \$35,000. Against the equipment, under law now in effect, an average credit of about 5 percent would be allowed. Under this bill, a 10 percent credit would be allowed—an increase of 5 percent, or \$25,000. The total tax credit would be \$85,000; the credit attributable to this bill, \$60,000.

Assume further that this investment creates 50 new jobs. This is, in fact, a very conservative assumption, since the Department of Commerce informs me that the average production job now requires about \$11,000 in capital investment; we are allowing, for this hypothetical analysis, a very expensive \$20,000 investment to create each new job. At any rate, 50 new jobs, at a conservative \$5,000 per job annual wage, would represent a total annual payroll of \$250,000. Against this payroll, the employer would take the bill's additional 25-percent deduction on wages paid to poverty area residents. Thus, even if all the new jobs were filled by such residents, his maximum savings, at current corporate tax rates, would be about \$31,000.

On the other hand, the Federal Government would collect on this payroll a

minimum of \$30,000 in individual income taxes. Its revenues would be further increased by taxes on the profits of the firms which built the plant and machinery, and sold it to the hypothetical businessman; assuming their profit at 10 percent before taxes, this extra investment would bring the Treasury an additional \$50,000. Now let us recall that for every three jobs created directly by this bill, it is estimated that from two to three additional jobs will be created indirectly; and let us assume conservatively that in this case, only one job will be created indirectly for every two jobs created directly. This would mean another 25 new jobs without Government assistance. Assuming that these would be lower paying jobs—say, only \$4,000 a year each—they would produce an additional payroll of \$100,000; of which the Federal Government would receive a minimum of \$10,000 in income taxes.

Finally, assume that in the absence of these new jobs for 75 men, the families of only 10 would receive Federal aid-to-dependent-children payments. In most urban areas, these 10 families would cost the Federal Government at least \$25,000 a year; in cities like New York, the cost would be much greater. Adding the welfare saving to the increased tax collections, we find that the Federal Government has gained a total of \$115,000 in the first year alone—more than matching the \$91,000 of tax savings received by the businessman.

Of course, this calculation is far from exact, and it is not comprehensive. It does not allow for the effect of accelerated depreciation. It does not allow for the continuing cost of the excess wage deductions in future years. But it also does not allow for the additional taxes the Federal Treasury will collect as a result of the purchases of the newly hired workers. It does not allow for the tax collections which will accompany the business profits on the secondary jobs created, or on the general attendant increase in economic activity. It does not count increased tax collections at the State and local level, nor for the increased tax base which may alleviate property tax burdens in the municipalities. It does not allow for income taxes collected in future years, which will rise as the workers' incomes rise. And the hypothetical case makes no allowance for taxes on any profit which the business may make. All these will add to, not detract from, Government revenues.

It may be asked, are these calculations dependent on the assumption that the investment receiving tax credits would not have taken place except for the incentives? Thus after the enactment of the 1962 tax credit, it was estimated that most of the investment receiving its benefits would have taken place in any case; and the benefits of the 1962 credit were assertedly diluted. Even allowing for this dilution, Secretary of the Treasury Dillon estimated that the 1962 credit repaid half its value to the Treasury just in the first year of its operation. But the tax incentives of this bill are far more narrowly drawn than were those of 1962; and its benefits will be far less subject to dilution.



First, the incentives of the 1962 bill were available throughout the economy; by definition, they were available for the incremental addition of even one new machine in an existing plant. This bill, by contrast, will be available only for the establishment of entire new plants in poverty areas. Second, the benefits of the 1962 bill were available irrespective of the effects of investment on employment; that is, an enterprise was eligible for the 1962 benefits if it substituted a new machine for an old one, even though both machines were run by the same worker. This bill, by contrast, requires that new jobs be created to man the new equipment. Third, the 1962 credit applied only to machinery; thus it encouraged the installation of new machinery in existing plants. This bill, by contrast, extends the credit to new plants as well as equipment; thus it encourages the creation of whole new facilities. Finally, this bill—unlike the 1962 credit—is specifically directed toward the creation of new jobs for previously unemployed residents of poverty areas. Thus it strikes directly—as the earlier bill did not—at the area which most severely burdens present welfare and social service budgets. Now let us remember again that the 1962 act, notwithstanding its more general applicability, still returned half its benefits to the Treasury in its first year. I think there is no question that this more precisely focused bill will, within a very short time, repay more than its full value to the Government.

My example is, of course, only a simplified illustration of how it is that the Investment Credit Act of 1962, and the tax cut of 1964, brought us out of recession into the longest period of uninterrupted economic expansion in our history. It is included here only to show that the provisions of this bill follow those earlier precedents; and that just as we all benefitted from attacking recession in the economy as a whole, so will we benefit from attacking it in the pockets of depression that remain.

Moreover, the jobs and income generated by this bill have a double benefit: they will go to areas and people who now represent the most serious drain on our budgets for welfare and extra municipal services—police, fire, health, and other social services. The public welfare budget in the State of New York, for example, is now \$1 billion, of which the Federal, State, and local governments each bear roughly one-third. Substituting self-sustaining jobs for welfare handouts is, in my view, desirable and necessary for its own sake; dependency is basically incompatible with American democracy. At the same time, the substantial benefits to local governments, most of which now labor under severe financial burdens, cannot be ignored.

Here we should set to rest a misconception that has gained unfortunate currency of late. A recent analysis of Federal welfare programs showed that of 7.3 million people receiving federally supported welfare assistance, only 50,000 could work. The analysis was intended to show only that the welfare rolls are not filled with deliberate idlers. But many

have taken it as "proof" that job programs cannot reduce the welfare budgets. And nothing could be further from the truth.

Of the 7.3 million welfare recipients, 850,000 were female heads of families, and 2.6 million were minor children from these same female-headed families. Thus over 50 percent of the Federal welfare rolls are made up of families whose husbands and fathers have left the house. But every study of poverty and its pathology shows that the vast majority of those husbands and fathers are absent precisely because they are unemployed, and unable to support their families. Leaving the house—to allow their families to qualify for welfare—is the only way these men can insure that their families will have food to eat and a roof over their heads. Thus it is the welfare system itself, in combination with the lack of decent job opportunities, which produces the welfare families who are asserted to be permanent dependents of the Government. But providing real job opportunities—for the absent fathers and husbands, and for the fathers and husbands of the future—will enable many of these families to reunite, and others to remain together. It is my firm conviction therefore, that this bill will help to reduce welfare and dependency—and their costs both financial and personal.

#### VII. CONCLUSION

This bill will not solve the problems of poverty. But it will help. It will not educate children—but it will give their fathers jobs, and their families income, and thus help create a family atmosphere in which education can more easily take place. The bill will not cure disease—but it will help provide the incomes to buy better food, and decent living conditions, and to pay for decent medical care. It will not comfort the old, or banish discrimination, or create by itself a sense of community in the city. But it will engage the energies and resources of a nation, as they have not been engaged before, in a new partnership against poverty; a partnership of government and its people, business and labor and the poor themselves.

This new partnership will not come of itself; nor will it come just from the enactment of this bill. It will come about only over many years and thousands of efforts, in every community in the Nation; I believe, in efforts like those now underway in Bedford-Stuyvesant in New York. But no real partnership is possible without the active participation of American business enterprise. This the bill will help to provide—and thus to hasten the day described by the poet:

In the vacant places  
We will build with new bricks  
There are hands and machines  
And clay for new brick  
And lime for new mortar  
Where the bricks are fallen  
We will build with new stone  
Where the beams are rotten  
We will build with new timbers  
Where the word is unspoken  
We will build with new speech  
There is work together

A Church for all  
And a job for each  
Every man to his work.

Mr. PEARSON. Mr. President, will the Senator from New York yield?

Mr. KENNEDY of New York. I am happy to yield to the Senator from Kansas.

Mr. PEARSON. Mr. President, I am pleased to join my distinguished colleague, the junior Senator from New York [Mr. KENNEDY] in presenting what I feel is a soundly conceived assault on one of our most pressing economic and social problems—the problem of creating new jobs in our poverty-stricken urban slums and ghettos. The legislation we introduce today, encouraged by several cosponsors, is designed to meet this problem by encouraging industrial development in these pockets of despair where the war on poverty will be ultimately won or lost.

The challenges confronting our cities are many and severe. They are faced with rising crime rates, chronic unemployment, festering slums, social disintegration, explosive racial unrest, congested streets, polluted air and contaminated water. This "crisis of the cities," as it is popularly called, has reached such alarming proportions, not because of lack of concern, but lack of insight, and we have discovered that merely spending more public money will not bring the metropolitan millennium.

Mr. President, no one doubts that increased Federal appropriations will be needed in the future, but I would submit that new ideas and creative approaches are needed—even more. And in this respect it is particularly vital that the vast resources of private enterprise must be mobilized to spearhead an attack on the very core of urban poverty—unemployment.

Nothing less than an industrial rebirth of our metropolitan ghettos is required. For it is only through increased employment and higher earnings that the pernicious curse of poverty and degradation can be effectively removed from our city slum dwellers.

Today, despite an overall jobless rate of approximately 4 percent, as indicated in the morning papers, the specter of unemployment still haunts hundreds of thousands of our urban citizens. In November 1966, for example, the rate of unemployment in certain slum sections of New York, Boston, Philadelphia, Phoenix, St. Louis, San Antonio, and San Francisco was 10 percent, or nearly three times the national average.

This problem is likely to grow still worse unless a forthright attempt is made to halt the flow of jobs and skilled entrepreneurs from the central city to the outlying suburbs. Such a task is not impossible, for vast reservoirs of manpower are available for urban industrial development. If the proper stimulus were applied, the creative energy locked within the ghettos that today finds its only outlet in protest, could be productively released.

Mr. President, I believe the proposal introduced today under the leadership of the Senator from New York, will provide that stimulus.



Mr. President, as the Senator from New York indicated, this bill utilizes a system of tax credits, increased deductions for wages paid, and rapid depreciation to encourage the necessary industrial investments. These benefits would be available to business locating in urban poverty areas presently defined by the Office of Economic Opportunity and in those areas to be designated later by the Secretary of Housing and Urban Development. Provisions are also made for Indian reservations to be designated by the Secretary of the Interior.

Furthermore, by requiring that a substantial part of any plant work force be composed of ghetto residents, this measure would insure that the unemployed slumdwellers, not commuting suburban workers, would benefit from this federally stimulated investment.

Any resident who might be displaced because of plant construction would be granted a relocation allowance more generous than those currently available under present urban renewal programs. In addition, if no public or local low-income housing were available, elderly, handicapped, and low-income families would be given rental assistance for up to 24 months.

Mr. President, the incentives for investment provided in this legislation have the advantage of encouraging private industry and metropolitan governments to cooperate in assaulting the deep evil of urban poverty. The Federal Government thus provides a catalyst, not control, and it provides this catalyst at relatively little expense. As my distinguished colleague has observed, the credits, accelerated depreciation, and deductions contained in this legislation will be compensated for by reduced welfare payments, new taxes on higher earnings, and increased industrial productivity.

This approach represents a new attack on an old problem. It creates no Federal bureaucracy. Hopefully, it simply creates jobs. Mr. President, jobs are the most fundamental and urgent need of our ghetto residents. It is true they are also plagued with inadequate housing, inferior education and substandard health facilities. These evils must indeed be treated. But their solution depends on an adequate level of income. And it is only through jobs, not welfare payments, that this income can be provided and maintained economically.

Mr. President, it is the proper responsibility of the Federal Government to foster local initiatives and to encourage private enterprise to create new jobs and to train the workers needed to fill them. The Federal Government should assume such an immense and complex task itself only in the last extremity. Federal training and employment programs are necessary, of course, but in general their costs are often too high. They often overlap and create independent facilities at great expense, instead of using the more comprehensive and readily available services of private industry.

If chronic unemployment is to be effectively reduced in the years to come, these services must be brought more

fully into play. As a matter of fact, the great majority of work training and retraining done in the United States today is already being performed by private industry. This sector of our national economy is now investing approximately \$4.5 billion annually in various forms of employee training.

Thus, if many new jobs are to be created and thousands of workers trained to fill them, private industry must bear the main responsibility. But, because of the high economic cost involved in locating in what is now a depressed area, industry must be given an incentive; it must be given help if it is to succeed. I believe this legislation would provide that incentive and give that help.

Mr. President, the myriad problems of the cities are perplexing, disquieting and often discouraging. Yet, occasionally, breakthroughs are made. Myths are exposed and old fears laid to rest. The fact is jobs can be provided for our ghetto residents. Slumdwellers can become self-supporting, self-respecting individuals and business can prosper once again in the now depressed sections of our cities. The vicious cycle of poverty and unemployment can be broken. And, I firmly believe the legislation we introduce today will provide the stimulus necessary to break that dismal chain.

The greatest of all books says, "the night cometh, when no man can work." In our urban slums, the night comes too soon and too often. By using a creative Federal stimulus we can provide private enterprise with the tools it needs to finish the job and hold back the night of unemployment. If such a step is not taken shortly, the crisis in our cities will continue to worsen, the economy will not achieve its full potential, and hundreds of thousands of Americans will continue to be denied that most fundamental of all rights—the right to earn a living.

S. 2088

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Urban Employment Opportunities Development Act of 1967".*

#### PURPOSE AND POLICY

SEC. 2. It is the purpose of this Act to reduce poverty in the nation's cities, and the social, physical, and psychological ills associated therewith, by creating incentives for private industry to provide additional employment opportunities to the residents of urban poverty areas, but nothing in this Act shall be construed to authorize the granting of any incentives to any industrial or commercial enterprise relocating from one area to another. Such incentives may, however, be granted to an industrial or commercial enterprise for expansion through the establishment of a new industrial or commercial facility of such enterprise in an urban poverty area, if (1) the establishment of such industrial or commercial facility will not result in an increase in unemployment in the area of original location (or in any other area where such enterprise conducts business operations), or (2) such industrial or commercial facility is not being established with any intention of closing down the operations of such enterprise in the area of its original location or in any other area where it conducts such operations.

#### DEFINITIONS

SEC. 3. As used in this Act—

(1) The term "Secretary" (for purposes of title I) means the Secretary of Housing and Urban Development.

(2) The term "urban poverty area" means an area, within a standard metropolitan statistical area containing a population of at least 250,000 persons, which the Bureau of the Census has determined, at the request of, and under procedures approved by, the Office of Economic Opportunity, to be a poverty area, subject to such modifications, additions, or exceptions as the Secretary may determine to be appropriate for the purposes of this Act. The term "urban poverty area" also means an area, within any place designated as urban by the Bureau of the Census, which meets the definition of a poverty area already utilized for standard metropolitan statistical areas of 250,000 persons or more and which the Secretary, after consultation with the Secretary of Labor and the Secretary of Commerce determines should be subject to the provisions of this Act and any Indian reservation which the Secretary of the Interior determines should be subject to the provisions of this Act.

(3) The term "person" means an individual, a trust, estate, partnership, association, company or corporation.

(4) The term "industrial or commercial enterprise" means any of the following types of business engaged in, by any person, through an industrial or commercial facility—

(A) the manufacture, production, processing, or assembling of personal property—

(i) for sale to customers in the ordinary course of business excluding any part of the activities of such business consisting of retail sales and leases; or

(ii) for use in such person's business,

(B) the distribution of personal property as principal or agent, including, but not limited to, the sale, leasing, storage, handling, and transportation thereof but excluding any part of the activities of such business consisting of retail sales and leases, or

(C) the construction of any building in an urban poverty area as contractor for, or for sale to, any customer, but only in the case of a person engaged in the business of constructing such buildings as a contractor for, or for sale to, customers.

The term "industrial or commercial enterprise" shall not include the activities of selling, leasing, or renting out of real property including the selling or leasing or renting out of a factory, workshop, office, warehouse, sales outlet, apartment house, hotel, motel, or other residence, or the lending of money or extending of credit.

(5) The term "industrial or commercial facility" means a fixed place of business, in which an industrial or commercial enterprise is wholly or partly carried on, including but not limited to—

(A) a place of management or office,

(B) a factory, plant, or other workshop,

(C) a warehouse or sales outlet,

(D) a center for the transportation, shipping, or handling of property,

(E) a place of management for and any urban poverty area building or construction site.

The term "industrial or commercial facility" shall not include any store, or other premises, or portion of premises used as a retail facility.

(6) The term "qualified jobs" means new employment positions which did not exist prior to the time of requesting certification from the Secretary, either at the industrial or commercial facility or in any other part of an enterprise operated by the person receiving a certificate of eligibility. The term shall not be limited to the 50 jobs which



constitute the minimum requirement under this Act but shall encompass all new or additional jobs at the certified industrial or commercial facility or in furnishing the services specified by this Act to such facility.

(7) The term "retail sale or lease" means a sale or lease made to a party whose payments therefore do not constitute the expenses or costs of a business.

(8) The term "retail facility" means a store, premises, or portion of premises in which a substantial percentage of the sales or leases are retail sales or leases.

(9) The term "city" means any municipality, county, parish, or other political subdivision of a State having general governmental powers.

(10) The term "low income person" means a person whose adjusted gross income (as defined in Section 62 of the Internal Revenue Code) in a particular period is less than the minimum amount reasonably necessary, in the area in which he resides, to adequately support himself or his family. The Secretary shall have the power, after consultation with the Secretary of the Department of Labor, to issue from time to time, bulletins specifying such minimum amounts for particular urban areas throughout the country.

#### TITLE I—ELIGIBILITY FOR ASSISTANCE

##### CERTIFICATION OF ELIGIBILITY

SEC. 101. (a) The Secretary after consultation with the Secretary of Labor and the Secretary of Commerce shall issue a certificate of eligibility for benefits under this Act to any person, who is engaged in, or desires to engage in, an industrial or commercial enterprise, through a specified industrial or commercial facility located, or to be located, in an urban poverty area, if—

(1) the governing body of the city in which such urban poverty area is primarily situated has given written notice to the Secretary that it wishes to participate in the program provided for in this Act to encourage the creation of new employment opportunities in such area;

(2) such governing body, or an agency or instrumentality of such city designated by such body, after public hearings at which residents of the urban poverty area in which the facility is to be located have had the opportunity to testify, has approved such enterprise as a participant in such program, and so certifies to the Secretary;

(3) the person to whom the certificate for such enterprise is to be issued agrees, in such form and manner as the Secretary may prescribe—

(A) in the case of an enterprise not then having an industrial or commercial facility located in an urban poverty area, to establish, within such period of time as the approving agency under paragraph (2) may require, such industrial or commercial facility (conforming to standards prescribed by the Secretary under subsection (d) of this section) at a site specified or agreed to, by such agency within such an area, or in the case of an enterprise having an industrial or commercial facility located in an urban poverty area, to conform it to standards prescribed by the Secretary under subsection (d) of this section;

(B) to provide, in connection with its operations at such industrial or commercial facility located, or to be located, in an urban poverty area, qualified jobs for at least 50 full-time employees, or in any case where such industrial or commercial facility is to operate in an urban poverty area in an urban area of under 50,000 persons or on an Indian reservation, qualified jobs for at least 25 full-time employees, of which not fewer than two-thirds of all persons holding any such qualified jobs are persons who were prior to such employment low-income individuals who (i) have resided in such area for six months or more, or (ii) were unemployed;

(C) to pay wages to persons employed in connection with the operations at any such facility at rates not less than the minimum wages determined by the Secretary of Labor under section 1(b) of the Act of June 30, 1936 (popularly known as the Walsh-Healey Act), as amended (41 U.S.C. 35(b)), to be the prevailing minimum wages for persons employed in similar work in the city or locality in which any such facility is located; and

(D) to maintain records listing the names and residences of all full-time employees at the industrial or commercial facility for which the certificate is being issued, the date on which they were hired, their employment and economic situation at the time of hiring, and any other information required by the Secretary, and in the case of an industrial or commercial facility, which is to be part of an industrial or commercial enterprise also conducted by such person at other locations, or which is to be conducted by a person also engaged in other enterprises, to maintain records showing the portion of such person's taxable income or net operating losses allocable to the industrial or commercial facility for which the certificate is being issued, as if it were conducted by a separate entity, pursuant to regulations promulgated by the Secretary of the Treasury or his delegate under section 482 of the Internal Revenue Code, modified as may be necessary to fulfill the purposes of this Act.

(4) the Secretary determines that the local agency which gave approval under paragraph (2), or such other agency or instrumentality as the governing body of the city may designate, will carry out an adequate relocation program, in accordance with section 103, for any persons, business concerns, and nonprofit organizations displaced as the result of the location of an industrial or commercial facility in an urban poverty area by a person receiving a certificate of eligibility pursuant to this section;

(5) the Secretary determines that the expected benefits to employment and to other aspects of the economic and social welfare of such urban poverty area warrant the granting of the income tax incentives under Title III of this Act as to the capital investment in such industrial or commercial facility; and

(6) the Secretary determines that the issuance of such certificate is in accordance with the policy set forth in section 2 respecting the relocation of industry.

(b) The Secretary shall issue a separate certificate of eligibility with regard to each industrial or commercial facility which meets the requirements of subsection (a) regardless of whether such facility is operated by any person as part of a single industrial or commercial enterprise.

(c) The Secretary shall issue a certificate of eligibility for benefits under this Act to any person who is a successor in interest to any person operating an industrial or commercial enterprise which has established an industrial or commercial facility in an urban poverty area and with respect to which facility a certificate of eligibility was issued under subsection (a), if—

(1) such person has been approved by the appropriate agency under paragraph (2) of subsection (a), and has been so certified by such agency to the Secretary;

(2) such person agrees to continue to use the facility as an industrial or commercial facility, and to conform to the requirements of subparagraphs (B) and (C) of subsection (a)(3); and

(3) the issuance of such certificate is in accordance, as determined by the Secretary, with the policy set forth in section 2 respecting the relocation of industry.

(d) The Secretary shall terminate a certificate of eligibility issued to any person under this section to operate an industrial or commercial facility whenever he deter-

mines, after an appropriate hearing, that the person to whom such certificate was issued has failed, after due notice and a reasonable opportunity to correct the failure at such facility has been given, to carry out its agreement under subsection (a) (3) or (b) (2). In making a determination under this subsection, the Secretary shall be guided by, but not be limited to, the following criteria:

(1) a reduction in the number of qualified jobs provided by any such enterprise below the minimums specified in subsection (a) (3) (B) shall not be grounds for termination of a certificate of eligibility issued to such enterprise, if the Secretary determines that (i) such reduction results from business or economic factors beyond the control of such enterprise, and (ii) not less than two-thirds of all the persons employed full-time in such jobs by such enterprise to meet the requirements of subsection (a) (3) (B) of this section continue to meet those requirements.

(2) a change in the residence of any person employed by such enterprise, after his employment has commenced, shall not affect his status for purposes of applying subsection (a) (3) (B) of this section.

(e) Any industrial or commercial facility for which a certificate of eligibility is issued under this section shall conform to such standards of design and construction as the Secretary shall by regulation require. Such regulations shall give due effect to any action taken by the locality in which such facility is, or will be located, to ensure that it is so designed and constructed as to provide a decent, safe, and sanitary place of employment in an aesthetically pleasing structure.

(f) The Secretary shall keep interested and participating Federal, State, and local agencies fully apprised of any action taken by him under this section.

(g) No certificate of eligibility shall be issued under this section to any person, unless application therefor is received by the Secretary prior to the expiration of ten years after the date of enactment of this Act.

##### REPORTS

SEC. 102. (a) The Secretary may by regulation require any person to whom a certificate of eligibility is issued under section 101 to file such reports from time to time as he may deem necessary in order to carry out his functions under this chapter.

(b) Whoever, in any report required to be filed under this section knowingly makes a false statement of a material fact, shall be fined not more than \$—— or imprisoned for not more than —— years, or both.

##### RELOCATION ASSISTANCE

SEC. 103. (a) In determining whether, for the purposes of section 101(a)(4), an adequate relocation program exists in any city to assist in the relocation of persons, business concerns, and nonprofit organizations displaced as the result of the location of an industrial or service facility in an urban poverty area by a business enterprise receiving a certificate of eligibility under this title, the Secretary shall be guided by the following criteria:

(1) Any persons so displaced shall be assured under the program of obtaining decent, safe, and sanitary housing at rentals which they can afford at locations which are reasonably accessible to their places of employment.

(2) (A) There will be paid to any person or family so displaced—

(i) a moving expense allowance, determined according to a schedule approved by the Secretary, not to exceed \$200;

(ii) a dislocation allowance equal to the amount under (i) or \$100, whichever is the lesser;

(iii) an additional payment of \$300, if such person or family purchases a dwelling for the purpose of residence within one year from the date of actual displacement, and



the dwelling so purchased is situated upon real estate in which such person or family acquires a fee title or a life estate, or which is held under a ninety-nine year lease or other type of long-term lease equivalent to fee ownership.

(B) In addition to the amounts payable under subparagraph (A), there will be paid to any family, any individual (not a member of a family) who is sixty-two years of age or over, or any individual (not a member of a family) who is handicapped within the meaning of section 202 of the Housing Act of 1959, monthly payments over a period not to exceed twenty-four months in an amount not to exceed \$500 in the first twelve months and \$500 in the second twelve months to assist such family or individual to secure a decent, safe, and sanitary dwelling. Subject to the limitation imposed by the preceding sentence, the additional payments shall be an amount which, when added to 20 per centum of the annual income of such family or individual at the time of displacement, equals the average annual rental required for such a decent, safe, and sanitary dwelling of modest standards adequate in size to accommodate such family or individual in areas not generally less desirable in regard to public utilities and public and commercial facilities: *Provided*, That such payments shall be made only to a family or individual who is unable to secure a dwelling unit in a low-rent housing project assisted under the United States Housing Act of 1937, or under a State or local program having the same general purposes as the Federal program under such Act, or a dwelling unit assisted under section 101 of the Housing and Urban Development Act of 1965.

(3) There will be paid to any business concern or nonprofit organization so displaced—

(A) its reasonable and necessary moving expenses and any actual direct losses of property (except goodwill or profit) for which reimbursement or compensation is not otherwise made; and

(B) an additional \$2500 in the case of a private business concern with average annual net earnings of less than \$10,000 per year, if such concern is not part of a larger enterprise having establishments other than the one with respect to which the displacement occurred.

(b) The Secretary is authorized to enter into contracts to make, and to make, grants to any city carrying out an approved relocation program under this section, or to any agency or instrumentality of such city designated by the governing body thereof, to defray that part of the cost of carrying out such program which is required under paragraphs (2) and (3) of subsection (a).

(c) There are authorized to be appropriated such sums as may be necessary to carry out the purposes of this section. Any sums so appropriated shall remain available until expended.

#### BUREAU OF CENSUS DESIGNATION

SEC. 104. The Bureau of the Census shall prepare maps of poverty areas within any urban area or any category of urban area specified by the Secretary.

#### TITLE II—TAX INCENTIVES

##### INCOME TAX CREDIT FOR INVESTMENT IN DEPRECIABLE PROPERTY IN URBAN POVERTY AREAS

SEC. 201. (a) Subpart A of part IV of subchapter A of chapter 1 of the Internal Revenue Code of 1954 (relating to credits allowable) is amended by renumbering section 40 as 41, and by inserting after section 39 the following new section:

"Sec. 40. Investment in Certain Depreciable Property in Urban Poverty Areas.

"(a) GENERAL RULE.—There shall be allowed, as a credit against the tax imposed

by this chapter, the amount determined under subpart C of this part.

"(b) REGULATIONS.—The Secretary or his delegate shall prescribe such regulations as may be necessary to carry out the purposes of this section and subpart C."

(b) Part IV of subchapter A of chapter 1 of such Code (relating to credits against tax) is amended by adding at the end thereof the following new subpart:

"Subpart C—Rules for Computing Credit for Investment in Certain Depreciable Property in Urban Poverty Areas

"Sec. 51. Amount of Credit.

"Sec. 52. Certain Dispositions, etc. of section 40 property.

"Sec. 53. Definitions; special rules.

"Sec. 51. Amount of Credit.

"(a) DETERMINATION OF AMOUNT.—

"(1) GENERAL RULE.—The amount of the credit allowed by section 40 for the taxable year shall be equal to—

"(A) 7 percent of the qualified expenditures (as defined in section 53(b)) made during the taxable year in regard to section 40 real property (as defined in section 53(a)(3)), and

"(B) 10 percent of the qualified expenditures (as defined in section 53(b)) made during the taxable year in regard to section 40 personal property (as defined in section 53(a)(4)).

"(2) LIMITATION.—Notwithstanding paragraph (1), the credit allowed by section 40 for the taxable year shall not exceed the taxpayer's liability for tax for such year.

"(3) LIABILITY FOR TAX.—For purposes of this section, the liability for tax for the taxable year shall be the tax imposed by this chapter for such year, reduced by the sum of the credits allowable under—

"(A) section 33 (relating to foreign tax credit),

"(B) section 35 (relating to partially tax-exempt interest),

"(C) section 37 (relating to retirement income), and

"(D) section 38 (relating to investment in certain depreciable property).

For purposes of this paragraph, any tax imposed for the taxable year by section 531 (relating to accumulated earnings tax), section 541 (relating to personal holding company tax), or section 1378 (relating to tax on certain capital gains of subchapter S corporations), and any additional tax imposed for the taxable year by section 1351 (d)(1) (relating to recoveries of foreign expropriation losses), shall not be considered tax imposed by this chapter for such year.

"(b) CARRYBACK AND CARRYOVER OF UNUSED CREDITS.—

"(1) ALLOWANCE OF CREDIT.—If the amount of the credit determined under subsection (a)(1) for any taxable year exceeds the taxpayer's liability for tax for such taxable year (hereafter in this subsection referred to as the 'unused credit year'), such excess shall be—

"(A) a section 40 credit carryback to each of the 3 taxable years preceding the unused credit year, and

"(B) a section 40 credit carryover to each of the 10 taxable years following the unused year,

and shall be added to the amount allowable as a credit by section 40 for such years, except that such excess may be a carryback only to a taxable year ending after the date of the enactment of the Urban Employment Opportunities Development Act of 1967. The entire amount of the unused credit for an unused credit year shall be carried to the earliest of the 13 taxable years to which (by reason of subparagraphs (A) and (B)) such credit may be carried and then to each of the other 12 taxable years to the extent that, because of the limitation contained in paragraph (2), such unused credit may not be

added for a prior taxable year to which such unused credit may be carried.

"(2) LIMITATION.—The amount of the unused credit which may be added under paragraph (1) for any preceding or succeeding taxable year shall not exceed the amount by which the taxpayer's liability for tax for such taxable year exceeds the sum of—

"(A) the credit allowable under subsection (a)(1) for such taxable year, and

"(B) the amounts which, by reason of this subsection, are added to the amount allowable for such taxable year and attributable to taxable years preceding the unused credit year.

"Sec. 52. Certain Dispositions, Etc. of Section 40 Property.

"(a) GENERAL RULE.—Under regulations prescribed by the Secretary or his delegate—

"(1) EARLY DISPOSITIONS.—If section 40 property (as defined in section 53(a)(2)) is disposed of, or otherwise ceases to qualify as section 40 property with respect to the taxpayer, the tax under this chapter for the taxable year in which the disposition occurs shall be increased by an amount equal to the credits allowed under section 40 for prior taxable years for qualified expenditures (as defined in section 53(b)) which were made—

"(A) in the case of section 40 real property (as defined in section 53(a)(3)) within 10 years before the date of the disposition, or

"(B) in the case of section 40 personal property (as defined in section 53(a)(4)) within four years before the date of the disposition.

This paragraph shall not apply to any qualified expenditures with respect to which there has been an increase of tax under paragraph (2).

"(2) Termination of certificate.—If the section 40 certificate (as defined in section 53(a)(1)) is terminated under section 101 (c) of the Urban Employment Opportunities Development Act of 1967, with respect to a section 40 facility (as defined in section 53(a)(5)) of the taxpayer:

"(A) the taxpayer's tax under this chapter for the taxable year in which the termination occurs shall be increased by an amount equal to the credits allowed under section 40 for prior taxable years for qualified expenditures which were made in accordance with section 53(b)(3) within three years before the date of the termination with respect to all section 40 property used at, or in connection with, such facility, and

"(B) the taxpayer's gross income for the taxable year in which the termination occurs shall be increased by an amount equal to the deductions allowed to the taxpayer under section 183 in such taxable year and the two preceding taxable years with respect to employees employed at, or in connection with, such facility.

"(3) Carrybacks and carryovers adjusted.—In the case of any disposition described in paragraph (1) or any termination described in paragraph (2), the carrybacks and carryovers under section 51(b) shall be adjusted.

"(b) SECTION NOT TO APPLY IN CERTAIN CASES.—Subsection (a) shall not apply to—

"(1) a disposition by reason of death,

"(2) a disposition to which section 381(a) applies,

"(3) a disposition necessitated by the cessation of the operation of a section 40 facility where the Secretary of Housing and Urban Development certifies that such cessation results from economic factors beyond the control of the section 40 business (as defined in section 53(a)(6)), or

"(4) a disposition on account of the destruction or damage of section 40 property by fire, storm, shipwreck, or other casualty, or by reason of its theft.



For purposes of subsection (a), property shall not be treated as ceasing to be section 40 property with respect to the taxpayer by reason of a mere change in the form of conducting the section 40 business so long as the property is retained in such business as section 40 property and the taxpayer retains a substantial interest in such business.

"Sec. 53. Definitions; Special Rules.

"(a) SECTION 40 CERTIFICATE, ETC.—For purposes of this chapter—

"(1) SECTION 40 CERTIFICATE.—The term 'section 40 certificate' means a certificate of eligibility issued by the Secretary of Housing and Urban Development under section 101(a) or section 101(b) of the Urban Employment Opportunities Development Act of 1967.

"(2) SECTION 40 PROPERTY.—The term 'section 40 property' means property which, in regard to a taxpayer conducting a section 40 business—

"(A) is of a character which is subject to the allowance for depreciation provided in section 167 and which is not property of a kind which would properly be includible in the inventory of the taxpayer if on hand at the close of the taxable year or which is not property held by the taxpayer primarily for sale to customers in the ordinary course of his trade or business,

"(B) will be used by such taxpayer (i) as a section 40 facility, (ii) as an integral part of, or in the operation of, any such facility, (iii) in furnishing transportation, communications, electrical energy, gas, water, or sewerage disposal primarily to any such facility, and

"(C) has at the time it is first used by such taxpayer after such taxpayer has been issued a section 40 certificate in regard to the section 40 facility at, or in connection with which, such property is used, a useful life of at least (i) 4 years in the case of section 40 personal property, (ii) 10 years in the case of section 40 real property.

Property shall not be treated as section 40 property if, after its acquisition by the taxpayer, it is used by a person who used such property before such acquisition (or by a person who bears a relationship described in section 179(d)(2) (A) or (B) to a person who used such property before such acquisition).

"(3) SECTION 40 REAL PROPERTY.—The term 'section 40 real property' means section 40 property which is section 1250 property (within the meaning of section 1250(c)).

"(4) SECTION 40 PERSONAL PROPERTY.—The term 'section 40 personal property' means section 40 property which is section 1245 property (within the meaning of section 1245(b)).

"(5) SECTION 40 FACILITY.—The term 'section 40 facility' means an industrial or commercial facility (as defined in section 3(5) of the Urban Employment Opportunities Development Act of 1967) which is specified by the Secretary of Housing and Urban Development in a section 40 certificate.

"(6) SECTION 40 BUSINESS.—The term 'section 40 business' means an industrial or commercial enterprise (as defined in section 3(4) of the Urban Employment Opportunities Development Act of 1967) with respect to which a section 40 certificate has been issued which has not been terminated under section 101(c) of such Act.

"(b) QUALIFIED EXPENDITURES.—

"(1) IN GENERAL.—The term 'qualified expenditures' means, with respect to each taxable year, expenditures by the taxpayer—

"(A) properly chargeable to capital account,

"(B) paid or accrued for—

(i) the manufacture, production, construction, or erection of section 40 property,

(ii) the acquisition of section 40 property by a purchase (as defined in section 179(d)(2) and subsection (d) of this section), or

(iii) the reconstruction, permanent improvement, or betterment of section 40 property, and

"(C) made during the 10-year period beginning with the date on which a section 40 certificate is first issued to any person with respect to the section 40 facility as, or in connection with which, such property is used.

"(2) LIMITATION.—Expenditures in regard to section 40 real property shall be treated as qualified expenditures only if the construction, erection, acquisition, reconstruction, permanent improvement, or betterment for which such expenditures are made, conforms to the standards prescribed under section 101(d) of the Urban Employment Opportunities Development Act of 1967.

"(3) YEAR OF QUALIFIED EXPENDITURES.—All qualified expenditures shall be deemed made in the taxable year in which—

"(A) in the case of qualified expenditures for the manufacture, production, construction, erection, or acquisition by purchase of section 40 property, the year in which the section 40 property is placed in service, and

"(B) in the case of qualified expenditures for the reconstruction, permanent improvement, or betterment of section 40 property, the year in which the section 40 property is reconstructed, improved or bettered as a result of the qualified expenditure is placed in service.

For purposes of this paragraph, any manufactured, produced, constructed, erected, or acquired section 40 property, or any reconstructed, improved, or bettered section 40 property, shall be deemed placed in service in the taxable year in which such manufactured, produced, constructed, erected, or acquired section 40 property, or such section 40 property as reconstructed, improved, or bettered, first becomes subject to depreciation by a taxpayer computing depreciation on a daily basis.

"(4) REPLACEMENT PROPERTY.—If section 40 property is manufactured, produced, constructed, erected, reconstructed, or acquired to replace property which was destroyed or damaged by fire, storm, shipwreck, or other casualty, or was stolen, the qualified expenditures with respect to such section 40 property which would (but for this paragraph) be taken into account for purposes of section 51(a) shall be reduced by an amount equal to the amount received by the taxpayer as compensation, by insurance or otherwise, for the property so destroyed, damaged, or stolen, or to the adjusted basis of such property, whichever is the lesser.

"(c) CERTAIN LEASED PROPERTY.—A person (other than a person referred to in subsection (g)) who is a lessor of property, which in the hands of the lessee constitutes section 40 property, may (at such time, in such manner, and subject to such conditions as are provided by regulations prescribed by the Secretary or his delegate) elect with respect to any section 40 property, as to which no prior credit under section 40 has previously been taken, to treat the lessee as having purchased such property for an amount equal to—

"(1) except as provided in paragraph (2), the fair market value of such property, or

"(2) if such property is leased by a corporation which is a member of an affiliated group (within the meaning of section 46(a)(5)) to another corporation which is a member of the same affiliated group, the basis of such property to the lessor.

If a lessor makes the election provided by this subsection with respect to any property, the lessee shall be treated for all purposes of this subpart as having acquired such property. For purposes of subsection (a) (1)(C), the useful life of the property to the lessee shall be deemed to be the useful life over which the lessee is permitted to depreciate or amortize the property.

"(d) SUBCHAPTER S CORPORATION.—In the case of an electing small business corporation (as defined in section 1371)—

"(1) the qualified expenditures for each taxable year shall be apportioned pro rata among the persons who are shareholders of such corporation on the last day of such taxable year, and

"(2) any person to whom any expenditures have been apportioned under paragraph (1) shall be treated (for purposes of this subpart) as the taxpayer with respect to such expenditures, and such expenditures shall not (by reason of such apportionment) lose their character as qualified expenditures.

"(e) ESTATES AND TRUSTS.—In the case of an estate or trust—

"(1) the qualified expenditures for any taxable year shall be apportioned between the estate or trust and the beneficiaries on the basis of the income of the estate or trust allocable to each, and

"(2) any beneficiary to whom any expenditures have been apportioned under paragraph (1) shall be treated (for purposes of this subpart) as the taxpayer with respect to such expenditures, and such expenditures shall not (by reason of such apportionment) lose their character as qualified expenditures.

"(f) CROSS REFERENCE.—For application of this subpart to certain acquiring corporations see section 381(c)(24).

(c) Section 48(a) of such Code (relating to definition of section 38 property) is amended by adding at the end thereof the following new paragraph:

"(7) SECTION 40 PROPERTY.—Any property which is section 40 property (as defined in section 53(a)(2)) shall not be treated as section 38 property to the extent that expenditures for the manufacture, production, construction, erection, reconstruction, permanent improvement, betterment, or acquisition of such property constitute qualified expenditures (as defined in section 53(b)).

(d) Section 381(c) of such Code (relating to carryovers in certain corporate acquisitions) is amended by adding at the end thereof the following new paragraph:

"(24) CREDIT UNDER SECTION 40 FOR INVESTMENT IN CERTAIN DEPRECIABLE PROPERTY IN URBAN POVERTY AREAS.—The acquiring corporation shall take into account (to the extent proper to carry out the purposes of this section and section 40, and under such regulations as may be prescribed by the Secretary or his delegate) the items required to be taken into account for purposes of section 40 in respect to the distributor or transferor corporation."

(e)(1) The table of subparts for part IV of subchapter A of chapter 1 of such Code is amended by adding at the end thereof the following new item:

"Subpart C. Rules for computing credit for investment in certain depreciable property in urban poverty areas."

(2) The table of sections for subpart A of part IV of subchapter A of chapter 1 of such Code is amended by striking out the last item and inserting in lieu thereof the following:

"Sec. 40. Investment in certain depreciable property in urban poverty areas.

"Sec. 41. Overpayments of tax."

#### DEPRECIATION DEDUCTION

SEC. 202. Section 167 of the Internal Revenue Code of 1954 (relating to depreciation) is amended by redesignating subsection (j) as (k) and by inserting after subsection (i) the following new subsection:

"(j) SECTION 40 PROPERTY.—

"(1) USEFUL LIFE.—At the election of the taxpayer—

"(A) the useful life of any property which is section 40 property (as defined in section 53(a)(2)) shall, for purposes of this section, be 66⅔ percent of the useful life of such



property determined without regard to this paragraph; and

"(B) the guideline class lives prescribed by the Secretary or his delegate which are applicable to any property which is section 40 property shall, for purposes of this section be 66⅔ percent of the guideline class lives applicable to such property determined without regard to this paragraph. An election under this paragraph shall be made at such time and in such manner as the Secretary or his delegate prescribes by regulations.

"(2) NEAREST FULL YEAR.—If the useful life or guideline class life of any property as determined under subsection (1) includes a fraction of a year, such useful life shall be deemed the nearest full year.

"(3) RESERVE RATIO TESTS.—In justifying class lives used for purposes of the deduction allowed by this section under the reserve ratio tests prescribed by the Secretary or his delegate, a taxpayer who makes an election under paragraph (1)(B) shall, for all purposes, be deemed to have utilized class lives equal to 150 percent of those applicable determined without regard to this subsection.

"(4) SALVAGE VALUE.—In determining the salvage value of section 40 property, subject to an election under paragraph (1)(A) and (B), the useful life of the property shall be deemed that life which would be applicable without regard to paragraph (1)(A) and (B).

"(5) EXCEPTION.—No election may be made under paragraph (1) with respect to any section 40 property which is placed in service after the expiration of the 10-year period beginning on the date on which a section 40 certificate (as defined in section 53(a)(1)) is first issued to any person for the section 40 facility (as defined in section 53(a)(5)) at, or in connection with which, such section 40 property is used."

#### NET OPERATING LOSS CARRYOVERS

SEC. 203. Section 172 of the Internal Revenue Code of 1954 (relating to net operating loss deduction) is amended—

(1) by striking out "(C) and (D)" in subsection (b)(1) and inserting in lieu thereof "(C), (D), and (E)";

(2) by adding at the end of subsection (b)(1) the following new subparagraph:

"(E) The portion of a net operating loss for any taxable year to which (under subsection (1)) this subparagraph applies which is allocable to the operation of a section 40 business (as defined in section 53(a)(6)) through a section 40 facility (as defined in section 53(a)(5)) shall be a net operating loss carryover to each of the 10 taxable years following the taxable year of such loss. The determination as to the portion of a taxpayer's net operating loss allocable to the operation of an industrial or commercial facility by a section 40 business shall be made in accordance with regulations promulgated by the Secretary or his delegate under section 101(a)(3)(D) of the Urban Employment Opportunities Development Act of 1967."

(3) by redesignating subsection (1) as (m), and by inserting after subsection (k) the following new subsection:

"(l) CARRYOVER OF NET OPERATING LOSSES OF CERTIFIED BUSINESSES.—Subsection (b)(1)(E) shall apply, with respect to the operation of such section 40 facility, only to a net operating loss for (A) the taxable year in which the operation of such facility is begun by any section 40 business under a section 40 certificate (as defined in section 53(a)(1)), or (B) any of the 9 succeeding taxable years.

#### SPECIAL DEDUCTION FOR SALARIES AND COMPENSATION PAID

SEC. 204. (a) Part VI of subchapter B of chapter 1 of the Internal Revenue Code of 1954 (relating to itemized deductions for individuals and corporations) is amended by adding at the end the following new section:

"Sec. 183. Special Deduction for Certain Businesses Operating in Urban poverty areas.

"(a) GENERAL RULE.—In the case of any person engaged in a section 40 business (as defined in section 53(a)(6)), there shall be allowed as a deduction for the taxable year (in addition to any deduction under section 162) an amount equal to 25 percent of the compensation paid or incurred in money during the taxable year to employees who—

"(1) are in qualified jobs (as defined in section 3(6) of the Urban Employment Opportunities Development Act of 1967), and

"(2) at the time they became so employed were low-income individuals who (A) had resided for 6 months or more in the urban poverty area in which such facility is located, or (B) were unemployed, and

"(3) during the period for which the compensation is paid or incurred, perform substantially all of their duties as employees:

"(A) at a section 40 facility (as defined in section 53(a)(5)) through which such section 40 business is conducted, or

"(B) by furnishing transportation, communications, electrical energy, gas, water, or sewerage disposal primarily to such facility.

"(b) LIMITATIONS.—Subsection (a) shall apply, with respect to employees at any section 40 facility, only to compensation paid or incurred in money during a 10-year period beginning with the date on which a section 40 certificate (as defined in section 53(a)(1)) is first granted to any person with respect to such section 40 facility.

(b) The table of sections for part VI of subchapter B of chapter 1 of such Code is amended by adding at the end thereof the following new item:

"Sec. 183. Special deduction for certain businesses operating in urban poverty areas."

#### EFFECTIVE DATE

SEC. 205. The amendments made by this title shall apply to taxable years ending after the date of the enactment of this Act.

#### TITLE III—TRAINING ASSISTANCE FOR INDUSTRIES LOCATING IN URBAN POVERTY AREAS

SEC. 301. Title II of the Manpower Development and Training Act of 1962 is amended by adding at the end thereof the following new part:

#### "PART D—TRAINING ASSISTANCE FOR INDUSTRIES LOCATING IN URBAN POVERTY AREAS

##### "General responsibility

"SEC. 251. The Secretaries of Labor and of Health, Education, and Welfare are authorized to provide, in accordance with their respective responsibilities under parts A and B of this title, a supplementary program of training and training allowances, in consultation with the Secretary of Housing and Urban Development, for low-income individuals who reside in an urban poverty area or who are unemployed and who are to be employed by a person operating an industrial or commercial enterprise certified under section 101 of the Urban Employment Opportunities Development Act of 1967. Such program shall be carried out by the Secretaries of Labor and of Health, Education, and Welfare in accordance with the provisions otherwise applicable to programs under this Act and with their respective functions under those provisions, except that—

"(1) the Secretary of Labor, in consultation with the Secretary of Housing and Urban Development, shall determine the occupational training or retraining needs of such individuals to be employed by any such enterprise;

"(2) all individuals to be employed in an urban poverty area by any such enterprise may be selected for training and shall be eligible for training allowances under this part: *Provided*, That the amount and dura-

tion of training allowances under this section shall in no event exceed the amount and duration of training allowances provided under section 203(a) of this Act;

"(3) the Secretary of Health, Education, and Welfare may, in appropriate cases, after consultation with the Secretary of Labor, arrange for training to be conducted by any such enterprise for individuals to be employed by it in any such area;

"(4) the Secretaries of Labor and of Health, Education, and Welfare shall, each with respect to his functions under this section, prescribe jointly with the Secretary of Housing and Urban Development such rules and regulations as may be necessary to carry out the purposes of this part; and

"(5) no funds available under this part shall be apportioned to any State pursuant to section 301 of this Act, nor shall any matching funds be required."

#### "Priority

"SEC. 252. The Secretary of Labor shall, to the extent practicable, give priority to the referral of individuals for training authorized by this part."

#### APPROPRIATIONS AUTHORIZED

SEC. 302. Section 304 of the Manpower Development and Training Act of 1962 is amended by striking out "(d)" and inserting in lieu thereof "(e)" and by inserting immediately after subsection (c) thereof the following new subsection:

"(d) For the purpose of carrying out part D of title II there are hereby authorized to be appropriated not in excess of \$20,000,000 for the fiscal year ending June 30, 1968, and for each fiscal year thereafter such amounts as may be necessary."

#### EFFECTIVE DATE

SEC. 303. The amendments made by this title shall take effect on July 1, 1967.

#### SECTION-BY-SECTION SUMMARY OF URBAN EMPLOYMENT OPPORTUNITIES DEVELOPMENT ACT OF 1967

##### Section 1—Short Title

This Act shall be cited as the "Urban Employment Opportunities Development Act of 1967".

##### Section 2—Purpose

The purpose of this Act is to provide tax and other incentives for private industry to create new employment opportunities for residents of urban poverty areas. Incentives shall be granted to persons conducting or proposing to conduct an industrial or commercial enterprise through a new, or expanded, facility in an urban poverty area. But such incentives shall not be granted where, (1) the establishment of such a facility in the poverty area will cause increased unemployment in some other area where the business conducts operations, or (2) the facility is being established to replace a facility of the industrial or commercial enterprise located in some other area.

Title I of the Act defines the type of businesses which qualify for tax and other incentives and establishes certification procedures. Title II amends the Internal Revenue Code to provide the relevant tax incentives. Title III amends the Manpower and Development Training Act of 1962 to ensure adequate training for those low-income persons who will be hired by certified businesses.

##### Section 3—Definitions

This section defines the various terms used primarily in Titles I and III of the Act. An "urban poverty area" is defined as an area, within a standard metropolitan statistical area of at least 250,000 persons (for a further explanation of this definition, see Appendix I) which the Census Bureau has determined to be a poverty area at the request of the Office of Economic Opportunity, subject to additions and deletions regarded



as appropriate by the Secretary of Housing and Urban Development after consultation with the Secretary of Labor and the Secretary of Commerce.

It also includes areas of comparable poverty to be designated by the Bureau of the Census in any other urban place—as defined by the Bureau of the Census—at the direction of the Secretary of Housing and Urban Development. Finally, it includes specific Indian reservations designated by the Secretary of the Interior.

The definition of "industrial or commercial enterprise" includes (a) a business which manufactures, produces, processes, or assembles personal property, or (b) a business which sells or leases or stores, handles or transports personal property for other businesses or (c) a business which constructs buildings for sale, or as a contractor, in an urban poverty area. The definition excludes retail businesses and businesses which engage in the sale, leasing, or renting out of real property, the lending of money, or the extending of credit.

The definition of "industrial or commercial facility" means a fixed place of business—such as a factory, a warehouse, an office, or a place of management and any number of urban poverty area construction sites—in which an industrial or commercial enterprise is carried on. It does not include a "retail facility" which in turn is defined as a store or premises or portion of premises where a substantial percentage of the goods are sold to the general public and not to other businesses for use in their operations.

The term "qualified jobs" is defined as the employment positions which did not exist prior to the time that the enterprise requested certification from the Secretary of Housing and Urban Development and which were then created either at the certified facility or for furnishing certain services primarily to such facility.

The term "low-income person" is defined as an individual earning less than the amount needed to support himself and his family adequately. The Secretary of Housing and Urban Development, shall, after consultation with the Secretary of the Department of Labor, designate the qualifying earnings levels for various urban areas.

#### TITLE I—ELIGIBILITY FOR ASSISTANCE

##### Section 101—Certification of eligibility

The Secretary of Housing and Urban Development after consultation with the Secretary of Labor and the Secretary of Commerce shall issue a certificate of eligibility for benefits under this Act to any person engaged in, or who proposes to engage in, an industrial or commercial enterprise in an urban poverty area when six conditions have been met.

First, the city in which such urban poverty area is located must give written notice to the Secretary that it wishes to participate in the program provided for in this Act.

Second, the city must approve the industrial or commercial applicant as a participant in the program and certify this fact to the Secretary. Such certification shall only be granted after public hearings at which residents of the urban poverty area have an opportunity to testify.

Third, the person engaged in the enterprise must agree, in a manner prescribed by the Secretary, (A) to locate a facility within the urban poverty area on a site, and within a period of time, specified by the city; (B) to provide at least fifty qualified jobs (reduced to twenty-five for cities of under 50,000 persons and Indian reservations) of which at least two-thirds are to go to low-income individuals who have resided in the poverty area for at least six months or to other unemployed low-income individuals (Whether the enterprise creates 50 or 100 or

1,000 jobs, two-thirds of them must go to such qualified low-income individuals.); (C) to pay wages that meet the prevailing minimum rates for persons employed in similar work in the city or locality, as determined by the Secretary of Labor; and (D) to maintain records concerning all full-time employees regarding their residences and hiring dates, their employment and economic status at the time of hiring, and any other information required by the Secretary of Housing and Urban Development, and to keep records showing what income or losses can be allocated to this facility rather than to other facilities comprising the same business or run by the same person but not having a preferred status.

Fourth, the Secretary must determine that the city will carry out an adequate program for relocating individuals, families, businesses, and nonprofit organizations displaced by industrial or commercial facilities induced to come into the area under this Act.

Fifth, the Secretary must determine that the person obtaining the certificate is establishing a reasonable ratio of capital investment to jobs created.

Sixth, the Secretary must determine that the person obtaining the certificate is not violating the relocation policies set forth in Section 2 of this Act, and causing unemployment in another area to create jobs in an urban poverty area.

For any person who wishes to operate more than one industrial or commercial facility in one or more urban poverty areas, and Secretary is instructed to ensure that each such facility conforms to the requirements of this Act and to issue a separate certificate covering each of these facilities.

The Secretary shall issue a certificate of eligibility under this Act for a successor in interest to any person operating a certified industrial or commercial facility if three requirements are met: (1) the successor has been approved and certified by the appropriate city agency; (2) such person agrees to continue the industrial or commercial facility and to conform to the conditions set forth in the original certificate; and (3) the issuance of such certificate is in accordance with the industrial relocation policies set forth in Section 2 of this Act.

The Secretary shall terminate a certificate of eligibility whenever he determines, after a hearing, that an enterprise has failed, after due notice and a reasonable opportunity, to continue meeting the conditions set forth in the original certificate. In making such a determination, the Secretary shall be guided by the following considerations. A reduction in the number of new or additional employment opportunities below the minimum specified in the Act shall not serve as grounds for ending eligibility under this Act if the Secretary determines that business or economic factors beyond the enterprise's control necessitated such a reduction, and finds that not less than two-thirds of the full-time workers employed at qualified jobs continue to meet the low-income or low-income and residency requirements specified in this Act. At the same time, a change in residence of any employee meeting the requirements at the time of hiring, shall not serve as grounds for termination of the enterprise's certificate of eligibility.

This section also provides that any industrial or commercial buildings for which a certificate of eligibility is issued shall conform to such standards of design and construction as the Secretary may require to insure safe, sanitary, and aesthetically pleasing places of employment.

Finally, the section provides that a person shall not be issued a certificate of eligibility unless his application is received by the Secretary before ten years have passed from the date on which this Act goes into effect.

#### Section 102—Reports

The Secretary may require any recipients of certificates of eligibility to file such reports as he may deem necessary to carry out his functions under this Act. Whoever makes an intentionally false statements of a material fact in any such report shall be subject to criminal penalties.

#### Section 103—Relocation assistance

An adequate relocation program for those persons, businesses and nonprofit associations dislocated under this Act must meet the following criteria. First, the Secretary shall determine that any persons being displaced are assured of decent, safe, and sanitary housing at reasonable rentals and reasonably near their places of work. Second, such individuals or families shall receive of to \$200 in moving expenses and up to \$100 as a dislocation allowance. If the person or family buys a dwelling place, than an additional payment of \$300 shall be made. Third, any low-income family or elderly or handicapped person shall receive monthly payments for up to 24 months, not to exceed \$500 in each of the two years, to assist them in obtaining decent dwelling units. The payments shall equal the difference between 20 percent of income and the rental required for a decent housing unit in an area not less desirable than the one being vacated. Such payments shall not, however, be made to an individual or family which secures a dwelling unit in a specified low rent Federal, State, or local housing project. Fourth, a displaced business concern or nonprofit association shall secure its reasonable and necessary moving expenses and payments for direct property losses (not including good-will or profits) not otherwise compensated for through the purchases of the enterprise's facility. An additional \$2,500 shall be paid to a private business having average annual net earnings of less than \$10,000 a year, if such concern is not part of a larger business enterprise having other establishments than the one being displaced.

The Secretary of Housing and Urban Development is authorized to make all necessary grants to cities participating in this program to defray the costs of providing relocation payments to families, businesses, and nonprofit associations displaced because of the establishment of a certified industrial or commercial facility. The necessary funds to carry out this relocation program are authorized to be appropriated.

#### Section 104—Bureau of Census designation

The Bureau of the Census shall prepare additional maps—as directed by the Secretary of Housing and Urban Development—of poverty areas in urban places to supplement those maps already prepared for poverty areas in standard metropolitan statistical areas of over 250,000 in population.

#### TITLE II—TAX INCENTIVES

##### Section 201

Chapter I of the Internal Revenue Code is amended to include a new series of provisions providing for a tax credit for certain qualifying businesses.

##### a. Section 40—Investment in certain depreciable property in urban poverty areas.

Any person engaged in an industrial or commercial enterprise, obtaining certification under this Act, who establishes or conforms a certified facility in an urban poverty area to standards set by the Secretary of Housing and Urban Development shall be entitled to certain specified tax credits. (In general, the tax credit provisions of this Act conform to those found in the existing Investment Tax Credit Act.)

##### b. Section 51—Amount of credit

The credit shall be 7% of the qualified expenditures for real property and 10% of



the qualified expenditures for personal property. (In regard to personal property, this credit supersedes the existing provisions under the Investment Tax Credit Act.) The credits for any taxable year, shall not exceed the taxpayer's tax liability for that year.

If any permissible credits under this section are not used, they may be carried back for 3 taxable years and forward for 10 taxable years. The carryback or carry forward must be to the earliest possible year first. A carryback cannot, however, be made to a taxable year ending before the date on which this Act is enacted. (The reason for allowing a longer carryback and carryover period is to lend assistance to any businessman who encounters a few years of economic hardship because of urban poverty area problems.)

In each carryback or carryover year, all available credits cannot exceed the taxpayer's tax liability.

*Section 52—Certain dispositions, etc., of section 40 property*

A person who has received certification and has established an industrial or commercial facility in an urban poverty area cannot dispose of real property and personal property for which credits have been taken under this Act for 10 and 4 years respectively without a loss of benefits. If such an early disposition is made, all credits taken for this property during those stipulated years shall be recoverable by the Federal government.

If a person's certificate is terminated by the Secretary of Housing and Urban Development, then the credits that he has taken during the 3 prior taxable years shall be recoverable by the Federal government. In addition, the special deduction for wages under section 183, during the taxable year of termination and the two preceding taxable years, is recovered.

In the case of a termination or an impermissible disposition which leads to a recovery, all carrybacks and carryovers shall be accordingly adjusted.

Certain involuntary dispositions shall not be considered as violative of these provisions. Thus transfers because of death or because the business changes its form or dispositions because of an unforeseen casualty or because the facility must cease operations due to uncontrollable economic factors shall not necessitate a penalty.

*Section 53—Definitions; special rules*

This section defines various terms for purposes of the Internal Revenue Code.

"Section 40 certificate" is defined as a certificate of eligibility issued by the Secretary of Housing and Urban Development under this Act to a qualifying business.

"Section 40 property" is that type of property which qualifies under this Act for tax credits and rapid depreciation. It is defined as depreciable property which is not part of inventory or held for sale to customers in the ordinary course of trade or business and which, at the time it is first used by a taxpayer who has been issued a certificate of eligibility, has—in the case of personal property—a useful life of at least 4 years, and—in the case of real property—a useful life of at least 10 years. Moreover, the property must either be used as the facility, or as an integral part of it or in its operations, or in furnishing such services as transportation, communications, electrical energy, gas, water, or sewerage disposal primarily to the facility. It cannot, however, be property which is used after acquisition by a taxpayer or a related party who also used it before such acquisition.

"Section 40 real property" is section 40 property defined by reference to section 1250(c) and "section 40 personal property" is section 40 property defined by reference to section 1245(b).

A "section 40 facility" means an industrial or commercial facility which has been specified in a certificate issued by the Secretary of Housing and Urban Development.

A "section 40 business" is defined as an industrial or commercial enterprise that has been issued a certificate of eligibility to operate a facility in an urban poverty area.

The term "qualified expenditure" is defined as an expenditure made during the 10 year certification period that is chargeable to capital account and is paid or accrued for the manufacture, production, construction, erection, acquisition, reconstruction, permanent improvement, or betterment of section 40 property.

If the expenditure is made on real property, then the property—whether it be constructed or reconstructed, erected or permanently improved, acquired or bettered—must be made to conform to the standards set under this Act by the Secretary of Housing and Urban Development.

A qualified expenditure shall be deemed made only in the taxable year in which the manufactured, produced, constructed, erected or acquired section 40 property or the section 40 property as reconstructed, improved, or bettered is placed in service. Property shall be considered placed in service when it first becomes subject to daily depreciation. A qualified expenditure made to obtain property as a replacement for property lost or destroyed due to a casualty shall be reduced by a sum equal to the amount received by the taxpayer through insurance or otherwise as compensation for the lost or destroyed property.

Section 53 also establishes certain rules for dealing with the credits established by this Act. In subsection (d), it provides that a lessor may pass the credit for section 40 property on to his lessee. The amount on which the credit is to be figured shall be either the fair market value of the property or, in the case of a transaction between corporations which are members of an affiliated group, the basis of such property to the lessor. If the lessor makes this election, the lessee shall be treated as having acquired such property and the property shall have a useful life equal to the life over which the lessee may depreciate or amortize it.

In subsections (e) and (f), the credits provided for in this Act are dealt with as they relate to Subchapter S corporations and estates and trusts. For any Subchapter S corporation, all qualified expenditures are apportioned pro rata to its shareholders and each shareholder is then treated as the taxpayer with respect to such expenditures. Qualified expenditures made by an estate or trust are allocated between the estate or trust and the beneficiaries on the basis of the income normally allocable to each. Any beneficiary is treated as the taxpayer with respect to all such apportioned expenditures.

The remainder of section 53 deals with cross references and conforming amendments to ensure that these new provisions will be consistent with all other sections of the Internal Revenue Code. Thus it is provided that if property is subject to credits under this Act, it cannot also be treated as section 38 property for purposes of obtaining an ordinary investment credit applicable to property held by other non-qualifying businesses.

*Section 202—Depreciation deduction*

Section 167 of the Internal Revenue Code is amended to provide that at the election of the taxpayer, the useful life of any section 40 property and the guideline class lives of any section 40 property shall be reduced to 66⅔ percent of the useful life or guidelines class lives normally applicable to such property.

In justifying class lives for section 40 property the taxpayer who makes an election under this section shall be deemed—for purpose of meeting any reserve ratio test—to have utilized class lives equal to 150 percent of those normally applicable to such property.

In determining the salvage value of all section 40 property for which an election has been made, the useful life of the property shall be deemed that life applicable to such property in the absence of this section.

Elections under this section can only be made for property placed in service during the 10 year certification period provided for in this Act.

*Section 203—Net operation loss carryovers*

Section 172 of the Internal Revenue Code is amended to provide a 10 year carryover period—as compared to the present 5 year period—for all losses allocable to the operation of an industrial or commercial facility by a certified section 40 business and sustained during the 10 year certification period. All determinations concerning the allocation of losses shall be made pursuant to regulations issued by the Secretary of the Treasury under section 482 of the Internal Revenue Code and modified as may be necessary to conform to the purposes of this Act.

*Section 204—Special deductions for salaries and compensation paid*

Chapter 1 of the Internal Revenue Code is amended to provide an additional deduction for certain qualifying businesses.

*Section 183—Special deduction for certain businesses operating in urban poverty areas*

A person operating a certified section 40 business shall be permitted an additional deduction equal to 25 percent of the compensation paid or incurred in money to the low-income, unemployed, or low-income, poverty area, workers whom he is required to hire under this Act. Such workers must be located at the facility or must be involved in furnishing transportation, communications, electrical energy, gas, water, or sewerage disposal primarily to such facility. This special deduction shall be in effect during the 10-year certification period.

*Section 205—Effective date*

The amendments added to the Internal Revenue Code by this Act shall apply to taxable years ending after the date that this Act is enacted.

**TITLE III—TRAINING ASSISTANCE FOR INDUSTRIES LOCATING IN URBAN POVERTY AREAS**

*Section 301*

Title II of the Manpower Development and Training Act of 1962 is amended by adding the following new part, Part D, "Training Assistance For Industries Locating in Urban Poverty Areas."

*Section 251—General responsibility*

The Secretaries of Labor and of Health, Education and Welfare, in consultation with the Secretary of Housing and Urban Development, are authorized to provide a supplementary program of training and training allowances for those individuals to be employed by certified businesses under this Act.

The Secretaries shall carry out the program by determining the occupational needs of those who are to be employed by any certified business and then provide them with training and training allowances. The allowances shall not exceed those normally provided under other Manpower Development and Training programs either in amount or duration. The training itself can be carried out by the certified business if the Secretaries of



Health, Education and Welfare and of Labor decide that this is appropriate.

*Section 252—Priority*

To the extent practicable, the Secretary of Labor shall give priority to the training of individuals needed for certified businesses under this Act.

*Section 302—Appropriations authorized*

Section 304 of the Manpower Development and Training Act of 1962 is amended to authorize an appropriation not in excess of \$20,000,000 for the fiscal year ending June 30, 1968 and such amounts as may be necessary for each fiscal year thereafter.

*Section 303—Effective date*

The amendments made by this title shall take effect July 1, 1967.

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APPENDIX I

OEO MAPS ON POVERTY AREAS

OEO maps show some 4,000 "poor tracts" in Standard Metropolitan Statistical Areas of 250,000 people or more

Five characteristics of a "poor tract"

1. Percent of families with cash incomes under \$3,000 for 1959
  2. Percent of children under 18 yrs old not living with both parents.
  3. Percent of males 25 yrs old or over with less than 8 yrs of school completed
  4. Percent of unskilled males aged 14 or over in the employed civilian labor forces
  5. Percent of all housing units lacking some or all plumbing facilities or dilapidated.
- Then to get Poverty Area, OEO combined poor tracts.

Definition of poverty area:

1. Any area having five or more contiguous "poor tracts" regardless of the number of families contained.
2. Any group of 1 to 4 contiguous "poor tracts" containing an aggregate of 4,000 or more families.
3. Any area of 1 or 2 contiguous tracts not ranked in the lowest quartile but completely surrounded by such "poor tracts." In some cases, areas of 3 or 4 contiguous tracts not themselves "poor" were surrounded by "poor tracts" and were included in the neighborhood after analysis of their individual characteristics. Areas of 5 or more contiguous tracts not ranked in the lowest quartile but surrounded by "poor tracts" were excluded when designating "poor tracts."



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